

# **CAPITAL AREA TRANSIT SYSTEM**

Annual Financial Statements

December 31, 2011 and 2010

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## **Independent Auditor's Report**

To the Board of Commissioners  
Capital Area Transit System  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the business-type activities and the major fund of Capital Area Transit System (the System), a component unit of the City of Baton Rouge - Parish of East Baton Rouge, and the Capital Area Transit System Employees' Pension Trust Fund (a fiduciary fund of the System), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, the major fund of the System and the Capital Area Transit System Employees' Pension Trust Fund as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2012, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and Schedules I and II be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the accompanying financial statements that collectively comprise the System's financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in cursive script, reading "LaForte".

A Professional Accounting Corporation

May 30, 2012

## **REQUIRED SUPPLEMENTARY INFORMATION**

# **CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA**

## **Management's Discussion and Analysis**

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The Management's Discussion and Analysis of Capital Area Transit System's (the System) financial performance presents a narrative overview and analysis of the System's financial activities for the year ended December 31, 2011. This document focuses on the current year's activities, resulting changes and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

### **Financial Highlights**

The System's net assets were \$4,454,173 as of December 31, 2011, representing an increase of \$1,756,020, or 65.08%, from that of December 31, 2010. A substantial portion of the net assets are invested in capital assets.

Net losses before capital contributions were \$1,944,260 and \$1,745,183 for 2011 and 2010, respectively.

### **Overview of the Financial Statements**

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the System's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements required by GASB 25. The System maintains two different funds: a proprietary fund and a fiduciary fund.

Although the System is a component unit of the City of Baton Rouge - Parish of East Baton Rouge (City-Parish), it is independently governed by a Board of Commissioners authorized by state statute.

*Proprietary Fund.* The System has one type of proprietary fund, an enterprise fund, which is used to report the same functions presented as business-type activities; for the System, the fund accounts for all transit activity. The basic proprietary fund statements can be found on pages 10 through 14 of this report.

The System's proprietary fund financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets. All assets and liabilities associated with the operation of the System are included in the Statement of Net Assets.

The Statement of Net Assets reports the System's net assets. Net assets, which is the difference between the System's assets and liabilities, is one way to measure the System's financial health or position. The net assets are classified into three categories: invested in capital assets, restricted, and unrestricted.



# **CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA**

## **Management's Discussion and Analysis**

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*Fiduciary Fund.* The System has one type of fiduciary fund, a pension trust fund, which is used to account for resources held for the benefit of parties outside the government. The fiduciary fund assets are not available to finance transit operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund statements can be found on pages 15 and 16 of this report.

### **Basic Financial Statements**

The basic financial statements present information for the System as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows.

The Balance Sheets present the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the System is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the System's net assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statements of Cash Flows present information showing how the System's cash changed as a result of current year operations. The statements of cash flows are prepared using the direct method and include the reconciliation of operating income (loss) to net cash provided by (used in) operating activities (direct method) as required by GASB 34.

### **Financial Analysis of the System**

#### **Net Assets**

The System's total net assets increased from \$2,698,153 at December 31, 2010 to \$4,454,173 at December 31, 2011.

The increase in net assets is primarily due to a significant increase in capital contributions. Restricted assets represent cash reserved to meet current fiduciary liabilities, primarily related to self insured vehicle and workers' compensation claims. The System does not own land and buildings; rather, the City-Parish provides the System with the use of its administrative building and terminal facility.

Long-term liabilities decreased from \$5,286,485 to \$4,416,667, mainly as a result of current year payments for the capital lease obligations entered into during 2004 for the upgrade to the bus fleet. Future federal grants are anticipated as the funding source for these leases.



**CAPITAL AREA TRANSIT SYSTEM  
BATON ROUGE, LOUISIANA**

**Management's Discussion and Analysis**

The table below summarizes the System's net assets as of December 31, 2011 and 2010:

	2011	2010
Unrestricted Assets	\$ 1,810,068	\$ 2,724,803
Restricted Assets	180,736	162,942
<b>Total Current Assets</b>	<b>1,990,804</b>	<b>2,887,745</b>
Equipment, Net	8,222,151	6,501,870
Net Pension Asset, Long-Term	1,705,120	1,691,670
<b>Total Assets</b>	<b>\$ 11,918,075</b>	<b>\$ 11,081,285</b>
Current Liabilities	\$ 3,047,225	\$ 3,096,647
Long-Term Claims Payable and Related Liabilities	1,120,945	1,228,151
Long-Term Other Liabilities	3,295,732	4,058,334
<b>Total Liabilities</b>	<b>7,463,902</b>	<b>8,383,132</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	4,566,576	2,147,448
Restricted	180,736	162,942
Unrestricted	(293,139)	387,763
<b>Total Net Assets</b>	<b>4,454,173</b>	<b>2,698,153</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 11,918,075</b>	<b>\$ 11,081,285</b>

**Changes in Net Assets**

The System's operating revenues increased from the prior year amount of \$2,113,474 to \$2,117,316, or 0.18%. This consistency is primarily attributable to the sustainability of transportation contracts and overall customer ridership.

Direct operating expenses decreased by \$215,210, or 1.39%, from \$14,532,091 to \$14,316,873. This decrease is primarily due to efforts in reduction in overall personnel and fringe benefit costs.

Net non-operating revenues in 2011 decreased by \$418,137, or 3.92%, from \$10,673,434 to \$10,255,297. This decrease primarily results from a decrease in federal subsidies.

**CAPITAL AREA TRANSIT SYSTEM  
BATON ROUGE, LOUISIANA**

**Management's Discussion and Analysis**

The table below summarizes the changes in net assets as of December 31, 2011 and 2010:

	2011	2010
<b>Operating Revenue</b>		
Charges for Services	\$ 2,065,305	\$ 2,086,981
Advertising Revenue	52,011	26,493
<b>Total Operating Revenue</b>	<b>2,117,316</b>	<b>2,113,474</b>
<b>Direct Operating Expenses</b>		
Operating Expenses	13,079,783	13,268,095
Depreciation Expense	1,237,090	1,263,996
<b>Total Direct Operating Expenses</b>	<b>14,316,873</b>	<b>14,532,091</b>
<b>Loss from Operations</b>	<b>(12,199,557)</b>	<b>(12,418,617)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	1,013	628
Interest Expense	(200,852)	(237,877)
Other Expenses	(252)	(7,708)
Loss on Disposal of Fixed Assets	(71,210)	(186,203)
Government Operating Grants	5,092,916	5,714,931
Hotel/Motel Tax	1,201,093	1,182,304
Other Revenue	38,059	12,829
Operating Transfers from Primary Government	4,194,530	4,194,530
<b>Total Non-Operating Revenues (Expenses)</b>	<b>10,255,297</b>	<b>10,673,434</b>
<b>Loss Before Capital Contributions</b>	<b>(1,944,260)</b>	<b>(1,745,183)</b>
<b>Capital Contributions</b>	<b>3,700,280</b>	<b>1,382,949</b>
<b>Net Income (Loss) after Capital Contributions</b>	<b>1,756,020</b>	<b>(362,234)</b>
<b>Net Assets, Beginning of Year</b>	<b>2,698,153</b>	<b>3,060,387</b>
<b>Net Assets, End of Year</b>	<b>\$ 4,454,173</b>	<b>\$ 2,698,153</b>

## **CAPITAL AREA TRANSIT SYSTEM BATON ROUGE, LOUISIANA**

### **Management's Discussion and Analysis**

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#### **Capital Assets**

During the year ended December 31, 2011, capital assets, net of depreciation, increased \$1,720,281 which was due to capital additions of \$3,044,810 exceeding depreciation expense of \$1,237,090. Major acquisitions during the year were 6 buses and 3 trolleys which were funded by the Federal Transportation Administration.

#### **Financial Outlook**

On April 21, 2012, the voters of the municipalities of Baton Rouge and Baker approved a 10.6 mill ad valorem tax. This tax is to be levied for a period of ten years beginning in 2012. Estimated taxes to be collected for 2012 are \$17.3 million (\$16.7 million from Baton Rouge and \$0.6 million from Baker). This new, dedicated revenue source will provide budgetary stability the System has needed since inception.

Prior to the passage of the tax, the System was projecting a \$2.1 million dollar deficit for the year 2012 and was prepared to cease operations on or about July 1, 2012, at which time the System projected it would run out of operating funds. The System has obtained a commitment from a bank to purchase \$3,000,000 in Revenue Anticipation Notes in order to fund operations through the end of 2012. The notes are projected to be funded on or about July 20, 2012, and will be repaid March 1, 2013, after collection of the 2012 tax revenue.

#### **Contacting the System's Management**

This financial report is designed to provide the community, the Metropolitan Council of the City-Parish, and other interested parties with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the System at (225) 389-8920.

## **BASIC FINANCIAL STATEMENTS**

**CAPITAL AREA TRANSIT SYSTEM**  
**Balance Sheets - Proprietary Fund**  
**December 31, 2011 and 2010**

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 465,252	\$ 62,351
Accounts Receivable	147,398	176,718
Due from Other Governments	572,193	1,812,123
Prepaid Expenses	21,729	17,372
Inventory	603,496	656,239
<b>Total Current Assets</b>	<b>1,810,068</b>	<b>2,724,803</b>
<b>Restricted Assets</b>		
Cash and Cash Equivalents	180,736	162,942
<b>Total Restricted Assets</b>	<b>180,736</b>	<b>162,942</b>
<b>Capital Assets</b>		
Equipment, Net	8,222,151	6,501,870
<b>Total Capital Assets</b>	<b>8,222,151</b>	<b>6,501,870</b>
<b>Other Assets</b>		
Net Pension Asset, Long-Term	1,705,120	1,691,670
<b>Total Other Assets</b>	<b>1,705,120</b>	<b>1,691,670</b>
<b>Total Assets</b>	<b>\$ 11,918,075</b>	<b>\$ 11,081,285</b>

The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA TRANSIT SYSTEM**  
**Balance Sheets - Proprietary Fund (Continued)**  
**December 31, 2011 and 2010**

	2011	2010
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 1,202,200	\$ 1,758,431
Accrued Compensated Absences	201,292	268,506
Claims Payable and Related Liabilities	431,951	370,862
Capital Lease Payable	661,782	698,848
Deferred Grant Revenue	550,000	-
<b>Total Current Liabilities</b>	<b>3,047,225</b>	<b>3,096,647</b>
<b>Long-Term Liabilities</b>		
Accrued Compensated Absences, Less Current Portion	301,939	402,760
Claims Payable and Related Liabilities, Less Current Portion	1,120,945	1,228,151
Capital Lease Payable, Less Current Portion	2,993,793	3,655,574
<b>Total Long-Term Liabilities</b>	<b>4,416,677</b>	<b>5,286,485</b>
<b>Total Liabilities</b>	<b>7,463,902</b>	<b>8,383,132</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	4,566,576	2,147,448
Restricted	180,736	162,942
Unrestricted	(293,139)	387,763
<b>Total Net Assets</b>	<b>4,454,173</b>	<b>2,698,153</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 11,918,075</b>	<b>\$ 11,081,285</b>

**CAPITAL AREA TRANSIT SYSTEM**  
**Statements of Revenues, Expenses and Changes in Net Assets -**  
**Proprietary Fund**  
**For the Years Ended December 31, 2011 and 2010**

	2011	2010
<b>Operating Revenue</b>		
Charges for Services	\$ 2,065,305	\$ 2,086,981
Advertising Revenue	52,011	26,493
<b>Total Operating Revenue</b>	<b>2,117,316</b>	<b>2,113,474</b>
<b>Direct Operating Expenses</b>		
Personal Services and Fringe Benefits	7,428,606	7,454,380
Supplies, Fuel and Other Bus Related Expenses	2,232,764	1,907,544
Contractual Services and Liability Costs	3,418,413	3,906,171
Depreciation	1,237,090	1,263,996
<b>Total Direct Operating Expenses</b>	<b>14,316,873</b>	<b>14,532,091</b>
<b>Loss from Operations</b>	<b>(12,199,557)</b>	<b>(12,418,617)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest Income	1,013	628
Interest Expense	(200,852)	(237,877)
Other Expense	(252)	(7,708)
Loss on Disposal of Fixed Assets	(71,210)	(186,203)
Hotel/Motel Tax	1,201,093	1,182,304
Other Revenue	38,059	12,829
Government Operating Grants		
Federal Operating Subsidy	4,915,796	5,632,003
Planning and Technical Study Grants	177,120	82,928
Operating Transfers from Primary Government	4,194,530	4,194,530
<b>Total Non-Operating Revenues (Expenses)</b>	<b>10,255,297</b>	<b>10,673,434</b>
<b>Loss Before Capital Contributions</b>	<b>(1,944,260)</b>	<b>(1,745,183)</b>
<b>Capital Contributions</b>	<b>3,700,280</b>	<b>1,382,949</b>
<b>Net Income (Loss) After Capital Contributions</b>	<b>1,756,020</b>	<b>(362,234)</b>
<b>Net Assets, Beginning of Year</b>	<b>2,698,153</b>	<b>3,060,387</b>
<b>Net Assets, End of Year</b>	<b>\$ 4,454,173</b>	<b>\$ 2,698,153</b>

The accompanying notes are an integral part of these financial statements.



**CAPITAL AREA TRANSIT SYSTEM**  
**Statements of Cash Flows - Proprietary Fund**  
**For the Years Ended December 31, 2011 and 2010**

	2011	2010
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers	\$ 2,094,625	\$ 2,250,789
Receipts from Other Sources	52,011	26,493
Payments to Suppliers and Others	(6,265,137)	(4,849,694)
Payments to Employees and Payroll Taxing Agencies	(7,542,933)	(7,449,357)
<b>Net Cash Used in Operating Activities</b>	<b>(11,661,434)</b>	<b>(10,021,769)</b>
<b>Cash Flows from Non-Capital Financing Activities</b>		
Operating Subsidies Received from Other Governments	6,869,119	4,867,254
Hotel/Motel Tax	1,214,820	1,155,092
Other Expense	(252)	(7,708)
Other Revenue	38,059	12,829
Operating Transfers from Primary Government	4,194,530	4,204,970
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>12,316,276</b>	<b>10,232,437</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital Contributions Received	3,700,280	1,382,949
Proceeds from Sale of Capital Assets	16,230	-
Payments on Capital Leases	(698,848)	(662,975)
Acquisition of Capital Assets	(3,044,810)	(846,548)
Interest Paid on Capital Debt	(208,012)	(244,670)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(235,160)</b>	<b>(371,244)</b>
<b>Cash Flows from Investing Activities</b>		
Interest Received	1,013	628
<b>Net Cash Provided by Investing Activities</b>	<b>1,013</b>	<b>628</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>420,695</b>	<b>(159,948)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>225,293</b>	<b>385,241</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 645,988</b>	<b>\$ 225,293</b>
<b>Reconciliation of Cash as Listed on the Balance Sheet</b>		
Unrestricted Cash	\$ 465,252	\$ 62,351
Restricted Cash	180,736	162,942
<b>Total Cash and Cash Equivalents</b>	<b>\$ 645,988</b>	<b>\$ 225,293</b>

The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA TRANSIT SYSTEM**  
**Statements of Cash Flows - Proprietary Fund (Continued)**  
**For the Years Ended December 31, 2011 and 2010**

	2011	2010
<b>Reconciliation of Net Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Net Operating Loss	\$ (12,199,557)	\$ (12,418,617)
Adjustments to Reconcile Net Operating Loss to		
Net Cash Used in Operating Activities		
Depreciation	1,237,090	1,263,996
Bad Debt Expense	-	7,433
Decrease in Accounts Receivable	29,320	163,808
Increase in Prepaid Assets	(4,357)	(450)
(Increase) Decrease in Net Pension Asset	(13,450)	49,104
Decrease in Inventory	52,743	29,048
(Decrease) Increase in Accounts Payable and		
Accrued Expenses	(717,106)	863,628
(Decrease) Increase in the Provision for Claims Liability	(46,117)	20,281
<b>Net Cash Used in Operating Activities</b>	<b>\$ (11,661,434)</b>	<b>\$ (10,021,769)</b>

The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA TRANSIT SYSTEM**  
**Statements of Plan Net Assets - Pension Trust Fund**  
**December 31, 2011 and 2010**

	2011	2010
<b>Assets</b>		
Cash and Cash Equivalents	\$ 485,318	\$ 549,957
Receivables	9,130	9,573
Investments, at Fair Value	<u>7,200,719</u>	<u>7,230,163</u>
 <b>Plan Net Assets Held in Trust for Pension Benefits</b>	 <u><u>\$ 7,695,167</u></u>	 <u><u>\$ 7,789,693</u></u>

The accompanying notes are an integral part of these financial statements.

**CAPITAL AREA TRANSIT SYSTEM**  
**Statements of Changes in Plan Net Assets - Pension Trust Fund**  
**For the Years Ended December 31, 2011 and 2010**

	2011	2010
<b>Additions</b>		
<b>Contributions</b>		
Employer Contributions	\$ 318,366	\$ 339,927
Employee Contributions	278,133	297,338
<b>Total Contributions</b>	<b>596,499</b>	637,265
<b>Investment Income</b>		
Investment and Dividend Income	238,540	206,559
Net Change in Fair Value	(142,732)	848,764
	95,808	1,055,323
Less: Investment Expense	(71,354)	(54,194)
<b>Net Investment Income</b>	<b>24,454</b>	1,001,129
<b>Total Additions</b>	<b>620,953</b>	1,638,394
<b>Deductions</b>		
Benefits	555,352	537,620
Employee Refunds	76,374	263,422
Administrative Expenses	83,753	70,721
<b>Total Deductions</b>	<b>715,479</b>	871,763
<b>Change in Plan Net Assets</b>	<b>(94,526)</b>	766,631
<b>Plan Net Assets at Beginning of Year</b>	<b>7,789,693</b>	7,023,062
<b>Plan Net Assets at End of Year</b>	<b>\$ 7,695,167</b>	\$ 7,789,693

The accompanying notes are an integral part of these financial statements.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Capital Area Transit System (the System) conform to accounting principles generally accepted in the United States of America applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes (LRS) and to the guidance set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*. The following is a summary of significant accounting policies.

##### **Report Issued Under Separate Coverage**

The Capital Area Transit System's financial statements are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's (City-Parish) Comprehensive Annual Financial Report (CAFR). The System has an operating agreement with the City-Parish that addresses the use of City-Parish facilities as well as other operating matters.

##### **Financial Reporting Entity**

Capital Area Transit System is a corporation created by East Baton Rouge Parish to provide bus transportation services. In 2004, the Louisiana State Legislature enacted House Bill 1682, Act 581, to recognize the System as a political subdivision and provide that all its assets are public property. The Metropolitan Council exercises oversight over the System by approving fare changes and by approving operating subsidies from the City-Parish's general fund. Operating subsidies are also provided through federal grants. The fiscal year for the System and the City-Parish government is the calendar year. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, established criteria for determining which component units should be considered part of the City of Baton Rouge - Parish of East Baton Rouge for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City-Parish governing the System (Metropolitan Council or Mayor President) appoints a majority of board members of the potential component unit.
3. Fiscal interdependency between the City-Parish and the potential component unit.
4. Imposition of will by the City-Parish on the potential component unit.
5. Financial benefit/burden relationship between the City-Parish and the potential component unit.

Based on the previous criteria, the System is considered a component unit of the City of Baton Rouge - Parish of East Baton Rouge. In addition, based on the previous criteria, the System's management has included the Capital Area Transit System Employees' Pension Trust Fund as a blended component unit within the financial statements of the System.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Financial Reporting Entity (Continued)**

The Capital Area Transit System Employees' Pension Trust Fund (the Plan) exists for the benefit of current and former System employees who are members of the Plan. The Plan is governed by an equal number of Employer Trustees and Union Trustees.

Currently, the Plan is governed by a four member board composed of two members representing the Employer Trustees and two members elected as Union Trustees. The Plan is funded by the investment of the contributions from the System and member employees who are obligated to make contributions to the Plan. The Plan does not issue a separate audit report.

##### **Measurement Focus, Basis of Accounting and Presentation**

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governments. The proprietary fund and the pension trust fund financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. The System uses fund accounting to report its financial position and results of operations. The operations of each fund are accounted for with a set of self balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses. The System has no governmental funds. A further explanation of the funds and their reporting classifications follows:

##### *Proprietary Fund*

Enterprise Fund - Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Accordingly, the System maintains its records on the accrual basis of accounting. Revenue from operations, investments and other sources are recorded when earned. Revenue received in advance is reflected as deferred revenue. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

The System applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Measurement Focus, Basis of Accounting and Presentation (Continued)**

###### *Fiduciary Fund*

The Pension Trust Fund is used to account for the accumulation of contributions for a defined benefit single employer pension plan providing retirement benefits to qualified employees.

The Pension Trust Fund's financial statements are prepared on the accrual basis of accounting. Contributions from the System and its employees are recognized as revenue in the period in which employees provide service to the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

##### **Restricted Assets and Liabilities**

Certain assets, consisting of cash and cash equivalents, are segregated and classified as restricted assets which may not be used except in accordance with contractual terms, under certain conditions. These assets consist of a certificate of deposit restricted for insurance and held by the State of Louisiana, and cash related to federal grants and related matching requirements.

##### **Investments**

Investments are stated at fair value based on quoted prices. The change in fair value is recognized in operations.

##### **Inventories**

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the first-in, first-out method.

##### **Equipment**

Equipment is recorded at cost. Depreciation or amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs which do not materially extend the useful life of the asset are charged to expense as incurred. Useful lives for equipment used in computing depreciation range from 3 years for certain office equipment to 12 years for rolling stock.

##### **Federal Grants and Dedicated Taxes**

Federal grants are made available to the System for the acquisition of public transit facilities, buses and other transit equipment. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the revenue is recognized at the time when the expense is incurred.



## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Federal Grants and Dedicated Taxes (Continued)**

In addition to federal grants, the System is the recipient of monies established under LRS 47:302.29(B) and LRS 47:322.1, which set aside the Louisiana state sales tax on hotel occupancy. These monies are provided to the East Baton Rouge Parish Community Improvement Fund (Improvement Fund). The System's share of these funds shall not be used to displace, replace or supplant funds previously appropriated or otherwise used for urban mass transit purposes. The monies in the Improvement Fund are appropriated annually by the Louisiana state legislature. In addition, the System also receives monies from the East Baton Rouge Enhancement Fund (Enhancement Fund), which has similar restrictions and was created by the Louisiana state legislature.

##### **Compensated Absences**

Employees earn vacation and sick leave in varying amounts according to continuing years of service as follows:

<b>Years of Service</b>	<b>Vacation</b>	<b>Sick</b>
0	None	1 Day per Month
1	7 Days per Year	1 Day per Month
2	13 Days per Year	1 Day per Month
6	17 Days per Year	1 Day per Month
15	24 Days per Year	1 Day per Month

Vacation must be taken by December 31<sup>st</sup>, or it is lost for the union employees. For the non-union employees, unused vacation can be carried forward to the next year. Sick leave is accumulated without time limitations and there is no limitation as to the amount paid upon termination or retirement. Vacation and sick leave are accrued as earned.

##### **Claims and Judgments**

The System provides for losses, including any anticipated related expenses, resulting from claims and judgments. A liability for such losses (including related out-of-pocket expenses) is reported when it is probable that a loss has occurred and the amount can be reasonably estimated.

##### **Cash Flows**

For the purposes of the statements of cash flows, cash and cash equivalents include all highly liquid investments.

## **CAPITAL AREA TRANSIT SYSTEM**

### **Notes to Financial Statements**

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Equity Classifications**

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

##### **Operating vs. Non-Operating Revenue**

The System recognizes rider fares, contracted fare services and advertising revenue as operating. All other revenues, including federal and state grants, and operating subsidies from the primary government are recognized as non-operating.

##### **Receivables**

Receivables consist of all revenues earned at year end and not yet received. Uncollectable accounts receivable are charged off directly against earnings when they are determined to be uncollectable. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

#### Note 2. Cash and Investments

##### Cash and Cash Equivalents

The System's cash and cash equivalents consisted of the following as of December 31, 2011 and 2010:

	2011		
	Proprietary	Fiduciary	Total
	Enterprise Fund	Pension Trust Fund	
Cash on Hand and in Banks	\$ 545,958	\$ -	\$ 545,958
Certificates of Deposit	100,030	-	100,030
Money Market Accounts	-	485,318	485,318
<b>Total Cash and Cash Equivalents</b>	<b>\$ 645,988</b>	<b>\$ 485,318</b>	<b>\$ 1,131,306</b>

  

	2010		
	Proprietary	Fiduciary	Total
	Enterprise Fund	Pension Trust Fund	
Cash on Hand and in Banks	\$ 125,264	\$ -	\$ 125,264
Certificates of Deposit	100,029	-	100,029
Money Market Accounts	-	549,957	549,957
<b>Total Cash and Cash Equivalents</b>	<b>\$ 225,293</b>	<b>\$ 549,957</b>	<b>\$ 775,250</b>

Proprietary fund cash and cash equivalents of \$645,988 and \$225,293 include \$465,252 and \$62,351 of unrestricted assets and \$180,736 and \$162,942 of restricted assets as of December 31, 2011 and 2010, respectively.

*Custodial Credit Risk - Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. Neither the System nor the Pension Trust Fund, a blended component unit, has a deposit policy for custodial credit risk. Throughout the course of the year, the System's deposits may be exposed to custodial credit risk. Deposits were secured by federal deposit insurance coverage (FDIC) up to \$250,000. The remaining deposits, which were exposed to custodial credit risk, were secured by the pledge of securities owned by the fiscal agent bank.

State statutes authorize the System's proprietary fund to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government Instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2011 and 2010, certificates of deposit of \$100,030 and \$100,029, respectively, were pledged as collateral to the Louisiana Office of Workers' Compensation.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

#### Note 2. Cash and Investments (Continued)

##### Investments

As of December 31, 2011 and 2010, assets classified as investments existed only in the Pension Trust Fund (the Trust). The assets of the Trust are invested in accordance with the investment policy of the Plan. Those assets are as follows:

	Fair Values	
	2011	2010
U.S. Treasury and Agency Bonds	\$ 824,721	\$ 821,781
Corporate Bonds	338,382	258,700
Corporate Stocks	3,865,572	3,939,664
Preferred Stocks	944,880	811,614
Equity Mutual Fund	450,428	558,064
Annuities	776,736	840,340
<b>Total</b>	<b>\$ 7,200,719</b>	<b>\$ 7,230,163</b>

As of December 31, 2011, the debt maturities of the Pension Trust Fund's investments were as follows:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury and Agency Funds	\$ 824,720	\$ 34,078	\$ 142,576	\$ 98,157	\$ 549,909
Corporate Bonds	338,382	36,197	215,115	87,070	-
<b>Total</b>	<b>\$ 1,163,102</b>	<b>\$ 70,275</b>	<b>\$ 357,691</b>	<b>\$ 185,227</b>	<b>\$ 549,909</b>

*Interest Rate Risk.* In accordance with its investment policy, the Pension Trust Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten years with a maximum maturity of 30 years for any single security.

*Credit Risk.* The investment policy of the Pension Trust Fund limits investments in commercial paper and corporate bonds to ratings of A-1 and BBB or higher as rated by the nationally recognized statistical rating organizations (NRSROs). As of December 31, 2011 and 2010, the Pension Trust Fund held no commercial paper investments. The Pension Trust Fund's investments in domestic corporate bonds as of December 31, 2011 and 2010, varied between ratings of A and AAA consistent with the investment policy. The Pension Trust Fund's investments in U.S. Agencies all carry the explicit guarantee of the U.S. government.

*Concentration of Credit Risk.* The Pension Trust Fund's investment policy does not allow for an investment in any one issuer that is in excess of 15% of the fund's total investments and no more than 30% of the total investment in any one industry.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

#### Note 2. Cash and Investments (Continued)

##### Investments (Continued)

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent, but not in the Pension Trust Fund's name. At December 31, 2011 and 2010, all of the Pension Trust Fund's investments were held by an agent in the name of the Pension Trust Fund.

#### Note 3. Receivables - Due from Other Governments

Receivables due from other governments at December 31, 2011 and 2010, were as follows:

	2011	2010
Federal Transit Administration	\$ 265,748	\$ 1,515,762
Hotel/Motel Tax	282,634	296,361
City-Parish	23,811	-
<b>Total</b>	<b>\$ 572,193</b>	<b>\$ 1,812,123</b>

#### Note 4. Equipment

A summary of changes in fixed assets follows:

	January 1, 2011	Additions	Deletions	December 31, 2011
Equipment, Primarily Transportation Vehicles	\$ 19,132,975	\$ 3,044,810	\$ (868,557)	\$ 21,309,228
Accumulated Depreciation	(12,631,105)	(1,237,090)	781,118	(13,087,077)
<b>Total</b>	<b>\$ 6,501,870</b>	<b>\$ 1,807,720</b>	<b>\$ (87,439)</b>	<b>\$ 8,222,151</b>

  

	January 1, 2010	Additions	Deletions	December 31, 2010
Equipment, Primarily Transportation Vehicles	\$ 18,940,444	\$ 846,548	\$ (654,017)	\$ 19,132,975
Accumulated Depreciation	(11,834,923)	(1,263,996)	467,814	(12,631,105)
<b>Total</b>	<b>\$ 7,105,521</b>	<b>\$ (417,448)</b>	<b>\$ (186,203)</b>	<b>\$ 6,501,870</b>

Depreciation expense for the years ended December 31, 2011 and 2010, totaled \$1,237,090 and \$1,263,996, respectively. The City-Parish (Primary Government) owns the terminal, administrative office building and related land which are used by the System for its operations. The City-Parish provides these facilities and land to the System at no charge through an operating agreement.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 5. Accounts, Salaries and Other Payables

The payables at December 31, 2011 and 2010, were as follows:

	2011	2010
Accounts Payable	\$ 894,487	\$ 1,349,740
Accrued Salaries	148,292	203,011
Accrued Expenses	121,928	161,027
Accrued Interest	37,493	44,653
<b>Total</b>	<b>\$ 1,202,200</b>	<b>\$ 1,758,431</b>

#### Note 6. Working Capital

Operations of the System are subsidized by the federal and local governments through various cash grants and appropriations. These subsidies are reported under the caption of non-operating revenue as government operating grants and as operating transfers from the primary government in the statement of revenues, expenses and changes in net assets.

#### Note 7. Pension Plan

##### Plan Description

The System, as well as covered employees, make contributions to the Capital Area Transit System Pension Trust Fund (the Plan), a defined benefit single employer pension plan. The Plan is administered by a local actuarial consulting company, under the direction of a Board of Trustees. All full-time employees become eligible for participation upon the date entering covered employment. Prior to August 2006, the normal retirement date was the first day of the month following a member's 65th birthday and completion of ten years of service. In August 2006, the Plan was amended and the age was reduced to 62 years. Benefits vest after ten years of service. A participant was entitled to a monthly normal retirement benefit beginning on his normal retirement date in an amount of 1.2% of average compensation for each year of service after February 1, 1963. Effective August 2006, the Plan was amended and the percentage was changed to 1.4% for all Plan years beginning January 1, 1991.

Average compensation is determined as the average of the five consecutive Plan years of compensation that produces the highest average. Early retirement is permitted for participants who have 15 years of service (five of which are after February 1, 1973) and who have attained age 55; early retirement benefits are reduced from normal retirement benefits. Membership, pension benefit obligation, and other pension information are obtained from the Plan's Annual Actuarial Valuation Reports as of December 31, 2011 and 2010. The valuation is performed at the beginning of the Plan year.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

#### Note 7. Pension Plan (Continued)

##### Plan Description (Continued)

Current membership was comprised of the following at December 31<sup>st</sup>:

	2011	2010
Retirees and Beneficiaries Currently		
Receiving Benefits	67	65
Vested Terminated Employees	52	20
Active Employees		
Fully Vested	32	36
Not Vested	76	72
<b>Total</b>	<b>227</b>	<b>193</b>

##### Funding Policy

The employees and the System each contributed, as required, 7% and 8%, respectively, of each employee's salary. For the Plan year beginning February 1, 1995, the System's pension plan was granted "qualified" status by the IRS which enables contributions to the Plan to be non-taxable to the employee. The Plan's long-range ability to pay benefits also depends on the future financial health of the System.

##### Annual Pension Cost and Net Pension Asset

The System's annual pension cost and net pension asset for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Annual Required Contribution	\$ 264,644	\$ 348,544
Interest on Net Pension Obligation	(118,417)	(121,854)
Adjustment to Annual Required Contribution	169,644	173,934
<b>Annual Pension Cost</b>	<b>315,871</b>	<b>400,624</b>
Contributions Made Including Interest	(329,321)	(351,520)
<b>Increase (Decrease) in Net Pension Asset</b>	<b>13,450</b>	<b>(49,104)</b>
<b>Net Pension Asset, Beginning of Year</b>	<b>1,691,670</b>	<b>1,740,774</b>
<b>Net Pension Asset, End of Year</b>	<b>\$ 1,705,120</b>	<b>\$ 1,691,670</b>



## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 7. Pension Plan (Continued)

##### Annual Pension Cost and Net Pension Asset (Continued)

Trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2011	\$ 426,166	140%	\$ 1,705,120
December 31, 2010	\$ 315,871	111%	\$ 1,691,670
December 31, 2009	\$ 400,624	106%	\$ 1,740,774

##### Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Plan was 79.98% funded. The actuarial accrued liability for benefits was \$9,621,089, and the actuarial value of assets was \$7,695,167. The covered payroll (annual payroll of active employees covered by the Plan) was \$3,951,032. The Plan was properly funded at December 31, 2011.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

##### Actuarial Methods and Assumptions

Key actuarial assumptions include 6.0% interest compounded annually, mortality tables from the 1994 Uninsured Mortality Table for males and females, anticipated turnover and disability rates ranging from 0.11% to 5.10% based on age of employee, and salary increases of 5.50% annually. The actuarial cost method is the aggregate actuarial cost method with allocation based on earnings. Asset valuation method is based on the current market value as of the last day of the prior Plan year.

#### Note 8. Deferred Compensation Plan

The System offers its employees participation in the Louisiana Public Employees' Deferred Compensation Plan (Compensation Plan), created by Louisiana Revised Statutes and in accordance with Section 457 of the Internal Revenue Code. The Compensation Plan is available to all full-time employees and permits them to defer a portion of their salary until future years. The assets of the Compensation Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

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#### Note 9. Commitments and Contingencies

##### Grant Commitments

Grant agreements under which the system receives federal financial assistance require the System to match 17% - 20% of dollars received. As of December 31, 2011, the System has committed cash to fund local matching requirements; however, additional fiscal effort will be required. Similar commitments existed as of December 31, 2010.

#### Note 10. Self Insurance and Legal Claims

The System is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System manages its exposure to losses through a self insurance program. For quite some time, including the period January 1, 2004 through August 31, 2004, the System retained liability for the first \$250,000 for general liability claims and workers' compensation claims. Excess general liability claims were commercially insured up to \$750,000. Beginning September 1, 2004, the System cancelled its commercial policy and, thus, became self-insured for all bodily injury and property damage tort claims, in addition to workers' compensation claims.

At December 31, 2011 and 2010, accrued claim liabilities of \$1,522,896 and \$1,599,013, respectively, are included in the proprietary fund's statements of net assets, as follows:

	2011	2010
Current Portion	\$ 431,951	\$ 370,862
Long-Term Portion	1,120,945	1,228,151
<b>Total</b>	<b>\$ 1,552,896</b>	<b>\$ 1,599,013</b>

The accruals, which are based upon the advice of counsel, are, in the opinion of management, sufficient to provide for all probable claims liabilities that are able to be estimated at December 31, 2011 and 2010. In addition, the claims will not be paid until appropriated by the System. Changes in claims liability during the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Beginning of Year Liability	\$ 1,599,013	\$ 1,578,732
Current Year Claims and Changes in Estimates	718,759	875,849
Claim Payments	(764,876)	(855,568)
<b>End of Year Liability</b>	<b>\$ 1,552,896</b>	<b>\$ 1,599,013</b>

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Financial Statements

#### Note 11. Capital Lease Obligations

The System is the lessee of 28 Blue Bird transit buses and 5 Federal Coach vans under two separate lease agreements with First Security Leasing, Inc. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

Changes in the capital lease liability during the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Beginning of Year Liability	\$ 4,354,422	\$ 5,017,397
Principal Payments	(698,847)	(662,975)
<b>End of Year Liability</b>	<b>\$ 3,655,575</b>	<b>\$ 4,354,422</b>
Due Within One Year	\$ 661,782	\$ 698,848
Net Book Value of Leased Capital Assets	<b>\$ 3,025,039</b>	<b>\$ 3,698,288</b>

Minimum future lease payments under these capital leases as of December 31, 2011 for each of the next five years are:

Year Ended December 31,	Amount
2012	\$ 833,704
2013	833,704
2014	833,704
2015	833,704
2016	833,704
<b>Total Minimum Lease Payments</b>	<b>4,168,520</b>
<b>Less: Amount Representing Interest</b>	<b>(512,945)</b>
<b>Present Value of Minimum Lease Payments</b>	<b>\$ 3,655,575</b>

The interest rates on the capital leases range from 4.87% to 4.92%.

#### Note 12. Concentrations

Substantially all non-management employees are covered under a collective bargaining agreement.

## **CAPITAL AREA TRANSIT SYSTEM**

### **Notes to Financial Statements**

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#### **Note 13. Subsequent Events**

The Board of Capital Area Transit System, acting as the governing authority of the System, called a special election to be held in the City of Baton Rouge, Louisiana, the City of Baker, Louisiana and the City of Zachary, Louisiana, on April 21, 2012, to authorize the levy and collection of a ten and six-tenths (10.6) mills ad valorem tax for a period of ten years per respective city for the purpose of improving the quality of public transportation including decreasing wait times, improving the efficiency of routes, improving signs and shelters, and for the operations, maintenance, and acquisition needs of the System to provide transportation service. On April 21, 2012, the City of Baton Rouge and the City of Baker approved this ad valorem tax, and the City of Zachary rejected this ad valorem tax. As of the date of this report, an estimate of \$14,893,935 is reasonably expected to be collected from the levy of the City of Baton Rouge tax for an entire year, and an estimate of \$424,858 is reasonably expected to be collected from the levy of the City of Baker tax for an entire year.

During 2012, the System has obtained a commitment from a bank to purchase \$3,000,000 in Revenue Anticipation Notes in order to fund operations through the end of the 2012 year. The notes are projected to be funded on or about July 20, 2012, and will be repaid March 1, 2013, after collection of the 2012 ad valorem tax revenue.

**CAPITAL AREA TRANSIT SYSTEM**  
**Required Supplementary Information Under**  
**GASB Statement No. 25**  
**Schedule of Funding Progress**  
**December 31, 2011**

**Schedule I**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded AAL as a Percentage of Payroll</b>
January 1, 2012	\$ 7,695,167	\$ 9,621,089	\$ 1,925,922	79.98%	\$ 3,951,032	48.74%
January 1, 2011	\$ 7,789,693	\$ 8,509,196	\$ 719,503	91.54%	\$ 3,866,390	18.61%
January 1, 2010	\$ 7,023,062	\$ 8,399,788	\$ 1,376,726	83.61%	\$ 4,650,670	29.60%
January 1, 2009	\$ 5,510,943	\$ 7,954,134	\$ 2,443,191	69.28%	\$ 4,969,489	49.16%
January 1, 2008	\$ 7,612,995	\$ 7,749,081	\$ 136,086	98.24%	\$ 5,276,945	2.58%
January 1, 2007	\$ 6,936,692	\$ 7,223,985	\$ 287,293	96.02%	\$ 4,820,357	5.96%
January 1, 2006	\$ 6,305,722	\$ 5,768,124	N/A	109.32%	\$ 4,784,924	N/A
January 1, 2005	\$ 5,584,893	\$ 5,428,930	N/A	102.87%	\$ 4,623,606	N/A
January 1, 2004	\$ 4,986,296	N/A	N/A	N/A	\$ 4,149,773	N/A
January 1, 2003	\$ 4,160,734	\$ 4,309,796	\$ 149,062	96.54%	\$ 3,991,134	3.73%

**CAPITAL AREA TRANSIT SYSTEM**  
**Required Supplementary Information Under**  
**GASB Statement No. 25**  
**Schedule of Employer Contributions**  
**December 31, 2011**

**Schedule II**

<b>Year Ended</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
December 31, 2011	\$ 362,798	\$ 318,366	87.75%
December 31, 2010	\$ 264,644	\$ 339,927	128.45%
December 31, 2009	\$ 348,544	\$ 410,499	117.78%
December 31, 2008	\$ 291,917	\$ 404,011	138.40%
December 31, 2007	\$ 268,774	\$ 438,443	163.13%
December 31, 2006	\$ 175,115	\$ 394,119	225.06%
December 31, 2005	\$ 190,796	\$ 355,099	186.11%
December 31, 2004	\$ 174,075	\$ 370,342	212.75%
December 31, 2003	\$ 207,283	\$ 350,140	168.92%
December 31, 2002	\$ 217,556	\$ 333,469	153.28%

## CAPITAL AREA TRANSIT SYSTEM

### Notes to Required Supplementary Information Under GASB Statement No. 25

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The supplementary information presented above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2011
Actuarial Cost Method	Aggregate actuarial method. Under this method, a separate actuarial accrued liability and unfunded liability are not identified or amortized. In years prior to January 1, 2003, the System used the frozen entry age normal method.
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	Current market value as of the last day of the Plan year was adjusted to smooth realized and unrealized capital gains and losses over a three year period by deferring one-third of such gains or losses accrued in the prior fiscal year and two-thirds of such gains or losses accrued in the current fiscal year.
Actuarial Assumptions:	
Investment Rate of Return	6.0%
Projected Salary Increases	5.50%



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
Capital Area Transit System  
Baton Rouge, Louisiana

We have audited the financial statements of Capital Area Transit System (the System), as of and for the year ended December 31, 2011, and have issued our report thereon dated May 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Capital Area Transit System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Capital Area Transit System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Commissioners of Capital Area Transit System, and the Legislative Auditor of the State of Louisiana, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

A handwritten signature in cursive script, appearing to read "LaForte".

A Professional Accounting Corporation

May 30, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners  
Capital Area Transit System  
Baton Rouge, Louisiana

**Compliance**

We have audited the compliance of Capital Area Transit System (the System) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended December 31, 2011. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, Capital Area Transit System complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2011.

## **Internal Control Over Compliance**

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management and Board of Commissioners of Capital Area Transit System, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

May 30, 2012



**CAPITAL AREA TRANSIT SYSTEM**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2011**

<b>Federal Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Project Number</b>	<b>Expenditures (Repayments)</b>
<u>Federal Transportation Administration</u>			
2006 Capital (Bus Rapid Transit)	20.507	LA-04-0021-00	\$ 17,053
2006 Job Access and Reverse Commute	20.507	LA-37-X021-06	5,209
2010 Job Access and Reverse Commute	20.507	LA-37-X041-04	45,458
2010 New Freedom	20.507	LA-57-X041-04	42,088
2010 Congestion Mitigation and Air Quality	20.507	LA-95-X001-00	589,385
2012 Congestion Mitigation and Air Quality	20.507	LA-95-X001-02	76,982
2007 Formula Grant	20.507	LA-90-X308-01	25,662
2007 Formula Grant	20.507	LA-90-X308-02	34,107
2008 Formula Grant	20.507	LA-90-X332-00	5,821
2009 Formula Grant	20.507	LA-90-X340-00	24,087
2009 Formula Grant	20.507	LA-90-X340-02	50,000
2010 Formula Grant	20.507	LA-90-X354-00	2,440,378
2010 Formula Grant	20.507	LA-90-X354-02	93,013
2010 Formula Grant	20.507	LA-90-X354-04	219,585
2010 A.R.R.A. Grant	20.507	LA-96-X008-01	2,943,029
2011 Formula Grant	20.507	LA-90-X372-00	772,267
2011 Formula Grant	20.507	LA-90-X372-04	510,976
2011 Formula Grant	20.507	LA-90-X372-08	243,506
2012 Formula Grant	20.507	LA-90-X389-00	111,560
<b>Total Federal Transportation Administration</b>			8,250,166
<u>Department of Defense</u>			
Katrina Related Capital and Operating	20.507	LA-48-X005-04	43,030
<u>Department of Housing and Urban Development</u>			
Community Development Block Grant	14.228		500,000
<b>Total Federal Award Expenditures</b>			<u>\$ 8,793,196</u>

See accompanying notes to the schedule of expenditures of federal awards.

## **CAPITAL AREA TRANSIT SYSTEM**

### **Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2011**

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#### **Note 1. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of Capital Area Transit System (the System). The System's reporting entity is defined in Note 1 to the financial statements for the year ended December 31, 2011. All federal awards received from federal agencies are included on the schedule.

#### **Note 2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the System's financial statements.

#### **Note 3. Reconciliation of Federal Awards to the Statement of Revenues, Expenses and Changes in Net Assets**

The following is a reconciliation of federal awards to revenues as reported on the statement of revenues, expenses and changes in net assets:

Federal Operating Subsidy	\$ 4,915,796
Planning and Technical Study Grants	177,120
Capital Contributions	<u>3,700,280</u>
<b>Total Expenditures of Federal Awards</b>	<u><u>\$ 8,793,196</u></u>

## CAPITAL AREA TRANSIT SYSTEM

### Schedule of Findings and Questioned Costs For the Year Ended December 31, 2011

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#### A. Summary of Audit Results

##### Financial Statements

1. The auditor's report expresses an unqualified opinion on the financial statements of Capital Area Transit System.
2. No significant deficiencies relating to the audit of the financial statements of Capital Area Transit System were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of Capital Area Transit System were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Capital Area Transit System expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Capital Area Transit System are reported in Part C of this schedule.
7. The programs tested as major programs included:

<u>Program</u>	<u>CFDA No.</u>
Federal Transportation Administration	20.507
Community Development Block Grant	14.228

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Capital Area Transit System was determined to be a low-risk auditee.

## **CAPITAL AREA TRANSIT SYSTEM**

### **Schedule of Findings and Questioned Costs (Continued) For the Year Ended December 31, 2011**

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#### **B. Findings and Questioned Costs Related to the Financial Statements**

None

#### **C. Findings and Questioned Costs Related to Major Federal Award Programs**

None

#### **D. Management Letter**

None



## **CAPITAL AREA TRANSIT SYSTEM**

### **Summary Schedule of Prior Audit Findings For the Year Ended December 31, 2011**

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#### **A. Prior Year Findings**

None